elements established by non-price cap LECs would be codified and, therefore, costs would not be allocated below the access category level.

The degree of regulation should be premised upon the level of competition in a particular market area. Concurrent with the implementation of special access expanded interconnection, the Commission has already established that study area segmentation is permissible. The Commission allows LECs to segment study areas into zones comprised of wire centers possessing similar traffic density characteristics. As access markets become increasingly competitive, an additional dimension that takes into account market competitiveness is needed. SWBT believes that this can be accomplished by establishing a three tier market structure of Initial Market Areas (IMAs), Transitional Market Areas (TMAs) and Competitive Market Areas (CMAs). Varying levels of pricing flexibility would be afforded according to the availability of alternative supply and the apparent willingness of customers to utilize it.

For those companies which have elected to establish zones, each zone should be designated an IMA. For those companies which have elected not to establish zones, each study area would be designated an IMA. IMAs will be the starting point from which LECs may elect to create new market areas. Within each IMA, the LEC may establish multiple TMAs which consist of wire centers within an IMA satisfying behavioral criterion demonstrating emerging competition. As each wire center satisfies additional competitive criteria

demonstrating significant competition, it may be designated as a CMA.

SWBT believes strongly that only through implementation of the above outlined access reform proposal can the Commission's objectives be fully and fairly realized. Therefore, SWBT's responses to the specific questions in the FNPRM are in addition to this position and represent the minimum changes required.

II. CHANGES TO THE INTERIM RATE STRUCTURE ARE NECESSARY

A. A Transport Rate Structure That Includes Both A Flat-Rate and a Per-Minute Rate For Tandem-Switched Transport Should be Adopted.

The Commission requests comment on whether a Tandem-Switched transport rate structure that includes both a flat rate and a per-minute rate is better in a competitive access environment than an end-to-end per-minute rate. The Commission also requests comments on why IXCs would choose between tandem-switched and direct-trunked transport.[10]

If the marketplace is to be truly competitive, the Commission must change the interim transport rate structure when switched interconnection is implemented, particularly if transport interconnection is allowed at the access tandem. LECs should be permitted to offer a flat-rate option from the Serving Wire Center (SWC) to the access tandem similar to the direct-trunked rates. [11]

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[10] FNPRM, at para. 114.

[11] This alternative structure was initially proposed by USTA and GTE in comments in this proceeding. GTE Comments, filed November 22, 1991, pp. 1-5; MTS and WATS Market Structure, CC Docket No. 78-72, Phase I, GTE Comments, filed February 22, 1991, pp. 16-19; USTA Comments, filed February 22, 1991, pp. 13-15.

The flat rate option is more economically efficient than the current rate structure and is more consistent with how the facilities are used and the costs are incurred. Customers can specify the capacity/bandwidth they desire between the SWC and the access tandem, therefore the capacity/facility is dedicated to that customer. Mandating that SWC to tandem transport be priced on an average per minute rate is inappropriate for a competitive marketplace because the average per minute rate does not accurately reflect direct costs. Mandating only an average per minute rate thus would not only be economically inefficient but would create an uneconomic competitive advantage for alternative access providers who would be able to more accurately tie price to direct cost. Between the tandem and the end office, the customer does not specify capacity/bandwidth, therefore, a per minute rate may be appropriate for this shared/common facility provisioning. Thus, a switched transport rate structure that includes both a flat rate and a per minute rate is preferable.

The Commission, however, should not mandate the withdrawal of the end-to-end structure, rather, the structure should be available as an additional service option. An IXC might choose both direct and tandem routed transport to end offices, especially to end offices where the IXC may have a significant level of demand. Thus, a transport structure that includes a flat-rate and per minute rate for tandem-switched transport should be adopted with the end-to-end structure, remaining as a service option.

B. The Dedicated Component of Tandem-Switched Transport Should be Measured From the SWC to the Tandem Switch, With the Common Transport Component Measured From the Tandem to the End Office.

The Commission has asked how mileage should be measured for tandem-switched transport and whether it should be measured differently for direct-trunked transport.[12] For tandem-switched transport offered on an end-to-end per minute option it is inappropriate to mandate either a requirement to bill on a mileage sensitive basis or the manner in which the mileage should be billed. The LECs should be permitted the flexibility to structure this offering in a way which is palatable to its purchasers.

For direct trunked transport, mileage measurement should be measured from the SWC to the end office. The special access interoffice per mile rate used for the distance sensitive component of direct trunked transport is a function of the total facilities route miles for the respective facilities. This average per mile rate (per facility type) takes into consideration the actual facility routings.

For tandem-switched transport offered on a dedicated/common structure basis, the distance sensitive dedicated component should be measured from the SWC to the tandem switch. This is the same average per mile rate as the distance sensitive component in direct trunked transport. The dedicated facilities used for both tandem switched transport and direct trunked transport are considered in the facility routings and in determining the facility route miles. Thus they are both

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[12] FNPRM, at para. 115.

considered in determining the average per mile rate. Likewise, the common transport component in this structure should be measured, if billed on a distance sensitive basis, from the tandem switch to the end office. These common facilities, facility route miles and minutes of use would be considered in determining the average per minute per mile common transport rate. In a dedicated/common tandem-switched transport structure, measuring distance for the tandem routed traffic from the SWC to the end office would be inconsistent with how the rates are determined, which results in major complications and distortions that would also create competitive disadvantages for the LECs. LECs must have the same flexibility in measuring and pricing their direct and common routed transport traffic as will their competitors.

C. Multiplexing (MUX) Costs Should Not Be Included In The Tandem Charge.

The Commission asked for quantification of the costs like tandem-switched related multiplexing.[13] Multiplexing facilities consist of circuit equipment not included in the tandem revenue requirements. Multiplexing costs should not be recovered from the tandem charge as proposed by the Commission. In the interim structure, the majority of multiplexing cost associated with tandem switched traffic is recovered via the IC. Under SWBT's proposed options for tandems, the flat rate to the access tandem will include the appropriate multiplexing charge just as direct end office transport does. LECs should be permitted flexibility to

[13] FNPRM, at para. 132.

recover these costs in the end-to-end option in a manner which is acceptable to the customer.

D. LECs Must Be Afforded Pricing Flexibility in Any Rate Structure.

The Commission requests comments on the two rate structures proposed for tandem-switched transport and on any proposals which combine features of both.[14] LECs should be afforded the flexibility to respond to the pricing options demanded by customers. Both rate structure alternatives may be able to provide options to IXCs in provisioning (and pricing) their networks and therefore LECs should have the flexibility to offer both options. SWBT supports fully the USTA proposal that LECs have the option of offering both optional flat rate to the tandem and end-to-end tandem route rate structure as well as a flat rate structure for direct end office routed traffic.

The USTA recommendation provides the minimum solution required in the interim before a full review of access charges, and combines the best features of both. Tandem-switched transport, which is comprised of both, an end-to-end option as currently ordered, and a new option allowing a flat-rated offering from the SWC to the tandem, maintains the balance of IXC competition, offers the opportunity of gaining improved network efficiency, and allows CAPs and LECs to compete for all aspects of transport services.

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[14] FNPRM, at para. 118.

E. Locating SWCs With Tandems Should Not Be Required.

The Commission suggests in the FNPRM that a requirement of LECs to designate the Tandem location as a SWC for IXCs might resolve IXC concerns regarding the placement of LEC tandems and the disadvantages inherent therein to small IXCs.[15] In general most IXCs already have their SWCs at or near tandem switches. Further, a review of the comments and Ex Partes of Comptel and Wiltel in CC Docket No. 91-213 suggest that small IXCs often have only one POP located near a single centrally located access tandem.

If LECs were to designate access tandems as SWCs, small IXCs would have to establish additional POPs, as large IXCs do, at or near the SWC to benefit from this arrangement or the Commission would have to require LECs to offer non-distance sensitive entrance facility rates for what could be extensive mileage measurements. This solution merely trades entrance facility mileage for interoffice mileage. A requirement to establish a SWC at tandem locations does not achieve the Commission's goals.

F. Concerns Over Tandem Placement Decisions Are Unwarranted.

The Commission has asked for comment on the extent to which smaller tandem offices subtend larger tandem offices and what effect this would have on the degree of traffic aggregation achieved in the access network and various other tandem placement issues.[16] The concerns over tandem placement decisions are unwarranted. As SWBT has previously demonstrated, tandem

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[15] FNPRM, at para. 117.

[16] FNPRM, at para. 113.

deployment decisions are made taking into account various factors resulting in maximizing efficiency of the network.[17]

SWBT deploys access tandems in an economical and logical manner to transport multiple types of traffic and to provide facility hubbing. SWBT incorporates many factors into the economic and engineering decision to deploy access tandem switching systems. These factors include:

1. Consideration of a geographic central location (or "HUB") to bring multiple facility routes together for interconnection to IXC and Independent Telephone Company (ICO) points of termination.

2. Consideration of the most efficient geographic location to serve other network customers. The access tandem is engineered to switch multiple types of telephone calls. Some of the more common call types are: local, intraLATA toll, and interLATA toll.

3. Consideration of an economical way to provide the following within SWBT's network: Centralized recording for intraLATA Toll and access, and centralized routing of traffic between end offices (allowing SWBT to "group" small amounts of traffic together at the access tandem and saving the cost of provisioning multiple small and inefficient direct trunks).

4. Consideration of the following as part of complex studies:

   a. Number of offices to be interconnected
   b. Volume of traffic involved
   c. Distances involved (impacts facility costs)
   d. Cost of interoffice facilities
   e. Cost of switching at a tandem

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[17] See, Response of SWBT to the June 18, 1992 Ex Parte of Wiltel, Inc., Filed July 10, 1992; In the Matter of Petition for Expedited Rulemaking to Effect Tandem Competition and Tandem Regulation with the Introduction of New Transport and Rate Structures, Filed by Wiltel, Inc. on June 11, 1992 and Ex Parte Communication of Wiltel, Inc. Filed June 18, 1992.

SWBT designs its network in good faith by taking into account all of the above factors. LECs are required to offer telecommunication services to everyone within the franchise area. It is inappropriate to judge management decisions regarding a portion of the LEC infrastructure based only upon the unique service needs of a single customer or class of customers. The telecommunications network should be measured by its overall efficiency in providing services to all customers and all classes of customers.

Furthermore, the Commission's actions, both relative to local transport restructure and its announced intentions with respect to Switched Access Collocation and Expanded Interconnection for switched access make competition for tandem functionality virtually a reality in the relative near term. This competition for the services which LECs perform at the tandem will also serve to ensure that LECs continue to make appropriate decisions with respect to tandems in their network and provide alternatives to small and medium-sized IXCs that make use of the efficiencies tandem routing affords. Also, as Wiltel stated in its Ex Parte, tandem placement ceases to be an issue with end-to-end tandem-switched rates. Since SWBT and others support an optional rate structure for tandem routed traffic, the question of tandem placement is moot.

The Commission requested comment on the uses of the tandem.[18] SWBT's tandem switches are utilized for provisioning of the following services: interstate switched access, interstate

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[18] FNPRM, at para. 132.

message toll, intrastate switched access, intrastate message toll, and local switching services. SWBT, based on June, 1992 data, has provided the percent usage for these services in the table below.

Percent Tandem Switching Usage

Interstate Switched Access	38.1%
Interstate Message Toll	1.5%
Intrastate Switched Access	14.3%
Intrastate Message Toll	38.7%
Local Dial Switching	7.4%

The Commission also requests comments regarding traffic aggregation and tandem deployment decisions.[19] Concerns about tandem placement decisions are simply unwarranted. Rather the tandem related issue which would have the most significant positive impact on maintaining a high level of competition in the interexchange market without unduly disadvantaging any single player or group of players in that market is to allow LECs the flexibility to recover the appropriate tandem costs from the tandem switch users in ways the marketplace will accept.

With respect to the suggestion that LECs waive non-recurring charges (NRCs) when they relocate or retire any of their tandems or rehome an end office, the NRC should only be waived if the LEC's action requires the IXC to reconfigure its network. For example, when SWBT requests an IXC to reconfigure its access interconnection to relieve overload situations (i.e., rehome from one tandem that is near exhaust to another with sufficient capacity), nonrecurring charges are waived. Another example is

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[19] FNPRM, at para. 113.

where, for overall cost effectiveness and network efficiency reasons SWBT makes technology deployment or other network decisions that require one or more customers to reconfigure their access services in order to maintain acceptable service or service levels, SWBT will waive NRCs. Such was the case with SWBT's deployment of signaling system 7 (SS7) associated with the implementation of 800 Data Base. In cases where actions initiated by LECs require customers to reconfigure their networks, it is appropriate to waive NRCs. A requirement to waive NRCs or to prescribe specific time frames is inappropriate except in such limited situations. IXCs should not have a blank check to make changes, to grow their network, or to correct bad decisions and expect LECs or other customers to pick up the tab merely because of a change in the tandem or end office.

G. Interconnection at the Tandem Appears to be Technically/Physically Possible Under the Comptel Plan, However, Additional Charges are Necessary to Recover the Cost.

The Commission asks whether under the Comptel plan third parties can interconnect at the tandem and provide the tandem-switched transport links.[20] There is no physical barrier to an arrangement under the Comptel Plan for third parties to interconnect at the tandem and to provide any one of the tandem switch to transport links. If a third party were to provide the link between the SWC and the tandem, switched interconnection

[20] FNPRM, at para. 114.

charges would be necessary[21] and appropriate to account for and recover the costs of the interface/interconnections plus the interface with the switched matrix at the SWC and at the tandem. The same would be true if the alternative access provider were to provide the link between the tandem and the end office. However, neither the original Comptel Plan nor the interim transport rate structure for tandem switch transport accommodate this arrangement.

If the Commission adopts rules which permit interconnection at the tandem and also allows alternate tandem switching suppliers, the LECs must be given the same flexibility in responding to customer needs as those available to the alternate transport or tandem switching providers. In this regard, the Comptel plan is totally deficient and inappropriate. Competition will only be promoted if an unbundled structure is available. This is not to say, however, that the structure should exclusively be an unbundled structure. It is appropriate for LECs to offer customers the option of both bundled and unbundled offerings of tandem-switched transport. If alternate suppliers can offer end-to-end service at untariffed or contract rate levels, LECs must be given the same opportunity to respond to such customer needs.

As discussed in Section II-A relative to rate structure considerations, mandating specific rate elements is unnecessary and inappropriate in the increased competitive environment of alternate transport and tandem switching suppliers. Therefore, the Commission should not prescribe a specific rate structure or rate

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[21] SWBT Comments, CC Docket No. 91-141, Phase I, filed January 14, 1993, pg. 21.

elements. In a more competitive market, availability of supplier choices will regulate LEC services and rates.

III. REGULATION OF LEC RATE LEVELS MUST ALLOW LECs TO COMPETE FAIRLY.

A. Only True Competition Will Drive Prices Toward Direct Cost.

The Commission has requested comment on how competition will affect direct-trunked and tandem-switched transport and whether regulators should set cost-based rates.[22]

Only true competition will drive the prices of both direct-trunked and tandem-switched transport toward their direct costs. The speed at which these prices will move toward costs and the overall benefit to consumers that will result, will depend upon the degree of LEC pricing flexibility allowed by the Commission.

The availability of competitive alternative transport, including LEC provided transport under the same conditions as its competitors, will directly affect the movement toward direct costs in transport rates. Regulation should remove the uneconomic and anticompetitive barriers that the LECs currently endure in provisioning and pricing transport and other access services. Current regulation only serves to artificially benefit alternative providers at the expense of the incumbent provider and to the disadvantage of consumers.

While recent Commission decisions indicate a slight movement toward permitting LECs to exercise greater control over

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[22] FNPRM, at para. 120.

the prices of the services they provide,[23] as the carrier access market becomes increasingly more competitive, greater LEC pricing flexibility is required. If LEC prices are unable to react quickly to changing supply and demand conditions in the carrier access market, LECs will be at a distinct competitive disadvantage to other access providers. In addition, competition in the IXC long distance market will be affected by changes in the access market regardless of whether the Commission continues restrictions on LEC price changes. Such restrictions can enhance the likelihood of success of LEC competitors in supplying transport services to IXCs, but LEC pricing restrictions are unlikely to prevent changes in the relative competitive positions of various IXCs in the interstate interexchange toll market.

Permitting LECs to actively engage in true price competition will also yield lower market prices for switched transport services than if tariffed LEC rates are reduced only gradually and by limited amounts. For example, if CAPs take full advantage of special access collocation opportunities,[24] they will

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[23]The current restructuring of LEC switched access transport rates more accurately reflects changing market conditions than the prevailing LEC tariffs (Interim Transport Order, CC Docket No. 91-213 pp. 29-32, paras. 53, 56, & 59). The Commission has also proposed a zone pricing scheme for LEC access services (both special access and switched transport) as competitors establish collocation arrangements (Report and Order and Notice of Proposed Rulemaking, In the Matter of Expanded Interconnection with Local Telephone Company Facilities and Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket Nos. 91-141 and 92-222, pp. 85-87, paras. 179-183 and Second Notice of Proposed Rulemaking, Phase I, CC Docket Nos. 91-141 and 92-222, p. 14, para. 32).

[24]Report and Order and Notice of Proposed Rulemaking, CC Docket 91-141, at para. 1.

likely install sufficient transmission capacity to accommodate switched access traffic, in anticipation of future Commission actions regarding switched transport collocation.[25] In effect, CAPs can be expected to construct excess transmission capacity in affecting special access collocation arrangements. Should the Commission subsequently decide to include switched transport collocation into its overall telecommunications policy objectives, the CAPs' incremental cost of placing switched traffic onto what was previously special access excess capacity would be nearly zero. In vigorously competitive markets, prices will be driven toward incremental costs. However, if LEC switched transport rates can only fall by at most 10 percent per year (without undergoing a lengthy review process), CAPs have little incentive to price switched transport close to the incremental cost of adding this traffic to existing transmission facilities. CAPs can further decide to install tandem switches on their own premises and supply both tandem switched and direct trunked switched access transport services. While the cost of switching (and perhaps related functions such as recording) would imply that the incremental costs of tandem switched transport will be somewhat higher than direct trunked transport, there will be little incentive for CAPs to price tandem switched services close to the relevant incremental costs so long as LEC pricing flexibility is limited. Thus, the market price for carrier access transport service is unlikely to approximate the incremental cost of supplying the service as long as it remains

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[25]Second Notice of Proposed Rulemaking, CC Docket 91-141, Transport Phases I & II.

difficult for LECs to adjust their prices quickly and sufficiently to rapidly changing market conditions.

B. The Commission's Decision to Segment the Transport Market into Zones Must be Expanded.

Recognizing that LECs must be given pricing flexibility to compete in the switched-transport market, the Commission has proposed segmenting the switched transport market into separate zones.[26] LEC transport prices would be allowed to vary across zones, presumably to reflect differences in underlying costs. While LEC access prices within any particular zone could be reduced by 10 percent,[27] the overall weighted average switched transport rates (i.e., separate weighted average rates will apply to direct trunked transport, including entrance facilities, and tandem switched transport) can decline by only 5 percent without triggering extensive regulatory review.[28] This set of requirements produces the unusual result that as greater portions of LEC switched transport traffic experience competitive pressures, it will be increasingly more difficult to reduce prices 10 percent while still maintaining an overall weighted average price reduction of 5 percent or less.[29] As a result, as the switched transport

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[26] Second Notice of Proposed Rulemaking, Phase I, CC Docket 91-141, at para. 32.

[27] Report and Order and Notice of Proposed Rulemaking, CC Docket 91-141, at para. 182.

[28] Interim Transport Order, at paras. 75-76.

[29] For example, if an LEC decides that competitive conditions warrant a 10 percent price reduction for 70 percent of its switched transport business, even a 5 percent rate increase for the remaining 30 percent of the LEC's switched transport traffic might not produce a weighted average price reduction of 5 percent or

market becomes increasingly more competitive it will likely become increasingly more difficult for LECs to match competitors' prices without invoking a lengthy regulatory review process.

C. LECs Must Be Allowed to Implement Volume and Term Discounts For Both Direct Trunked and Tandem-Switched Transport Rates.

The Commission has precluded LECs from applying term and volume discounts for switched transport services[30] during the interim transport rate period in an attempt to "mitigate the impact of a rate structure change on small IXCs, allowing a more gradual transition to the new transport rate structure and new competitive conditions."[31] While term and volume discounts for switched transport services might be absent from LEC tariffs, these pricing options certainly will appear in the marketplace. Non-LEC transport service providers (e.g., CAPs) can be expected to employ a variety of pricing strategies, including term and volume discounts, to capture market share. To the extent that LEC prices cannot respond to any potential discounts offered by CAPs, large IXCs are likely to quickly substitute CAP transport services for existing arrangements with LECs. Thus, the effects of term and volume discounts in reducing the access charges paid by larger IXCs relative to the access bills of smaller IXCs will not be avoided by preventing LECs from matching discount plans that probably will be included in CAPs' pricing strategies. If the Commission is striving to achieve a fully competitive carrier access market, then

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[30] Interim Transport Order, at para. 54.

[31] Id.

LECs must be permitted to fully compete with CAP offerings, including the opportunity to offer term and volume discounts. The importance of LECs being able to at least match CAP offerings is underscored by the potential that LECs could very quickly (e.g., in less than the two year interim transport rate period contemplated by the Commission) be placed at a significant competitive disadvantage if only a few large IXCs employ CAP services (perhaps because of price discounts LECs are unable to match) in selected high volume access market segments.

D. Existing DS3-to-DS1 Rates Are Reasonable And the Use of Such Special Access Rates is Proper.

The Commission has requested comment on the effect on interexchange competition of using existing special access rates for transport.[32] The Commission also requests comment on several issues regarding DS3-to-DS1 rate relationships including whether the existing rate relationships are reasonable,[33] whether the rate relationships used in setting interim transport rates are reasonable,[34] whether any strictures should be placed on the LECs' rate relationships, and what factors should be considered in evaluating a reasonable DS3-to-DS1 rate relationship.[35]

The Commission reached the appropriate conclusion when they chose existing special access rates as the starting point for the interim local transport rate structure. As SWBT previously

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[32] FNPRM, at para. 120.

[33] FNPRM, at para. 123.

[34] Id.

[35] Id.

suggested, the rules should permit even closer parity to special access rates than that provided for in the Interim Transport Order.[36] This would be accomplished by using the currently effective special access rates (rather than those in effect as of September 1992), by permitting term and volume discounts and by incorporating whatever zone pricing was currently effective in special access rates.

At a minimum, use of these rates on a continuing basis for the long term rate structure, including the individual LEC DS3-to-DS1 ratios inherent in those rates, is appropriate. Existing DS1, DS3 and multiple DS3 special access rates, and therefore the relationships between them, have already been deemed reasonable. Unlike other market participants, the LECs continue to be fettered with regulatory oversight that has ensured extensive public scrutiny of their rates. This scrutiny has taken place with each DS1/DS3 tariff filing since 1985. These filings have been closely examined by the Commission, customers and competitors. It can therefore be concluded that the rate relationships among these services for special access are appropriate.[37] Why then not for switched transport?

Small and medium-sized IXCs argue against the use of these rates in the long term rate structure because they believe that such rates will unduly advantage AT&T in the marketplace.

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[36] Petition for Reconsideration and Clarification of SWBT, CC Docket No. 91-213, Filed December 21, 1992, pg. 14.

[37] The Commission itself has noted that "there are no pending complaints filed with the Commission's Enforcement Division challenging the existing Special Access rate relationships. Interim Transport Order, at fn. 98.

Because the higher the ratio, the better the advantage for small IXCs, CompTel and others suggest a 28 to 1 ratio. The Commission correctly rejected such a ratio in setting the interim rates and should also reject such a ratio in setting the long term rates.[38] The Commission should not mandate a specific relationship. Such a mandated rate relationship could only be established in a purely arbitrary manner.[39]

The Commission also requests comment as to why DS3-to-DS1 rate relationships vary among LECs and whether the current degree of variation is reasonable.[40] The degree of variation is reasonable. As the Commission correctly recognizes in paragraphs 45 through 52 of the Interim Transport Order there are many factors that cause DS1 and DS3 rates to vary, including:

- o Varying mixes of copper and fiber facilities used in the different LEC networks[41]
- o Differences in LEC decisions on how to engineer their networks[42]
- o Each LEC serves a different market[43]

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[38] Interim Transport Order, at para. 48.

[39] In a competitive market, placing restrictions only on the LECs will not prevent CAPs, IXCs and other providers from meeting customer needs. Therefore, small and medium sized IXC's fears cannot be mitigated by restricting the LECs. LECs must have the same pricing flexibility as all other providers/competitors for full and fair competition to exist.

[40] FNPRM, at para. 123.

[41] Interim Transport Order, at paras. 45 & 47.

[42] Interim Transport Order, at paras. 45 & 48.

[43] Interim Transport Order, at paras. 48 & 48.

Thus, the Commission's conclusion is valid: "Any one ratio for DS1 and DS3 rates is unlikely to be an accurate reflection of cost differences for all LECs, and would probably have to be changed over time."[44] This same conclusion can be applied to any individual LEC. As the copper/fiber mix in the LEC facility deployment changes in any given study area or zone, so changes the DS3-to-DS1 ratio. New technology deployment, changes in the marketplace, changes in customer demand from DS1 to DS3, even customer changes in their cascading network design, impact the relationship. Therefore, even if it were possible to select one DS3-to-DS1 rate relationship for the industry, it would require constant adjustment to accurately reflect the dynamic circumstances of not only each individual LEC, but each study area in the nation.

Further, as SWBT has repeatedly indicated, switched and special access services are highly substitutable for one another. As a carrier's traffic volume increases, they often move from switched to special access services and often the dedicated services they use to substitute with are provided by an LEC competitor. If the Commission were to prescribe that LECs use a particular DS3-to-DS1 ratio for switched transport, it would simply serve to move LECs away from parity with their special access rates and will not serve to protect the small and medium-sized carriers because larger IXCs will still be able to subscribe to the services of a LEC competitor, one who is not burdened with such arbitrary regulations.

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[44] Interim Transport Order, at para. 49.

E. The Type of Tandem Switched Transport Rate Structure SWBT Originally Proposed in This Docket is the Most Economically Efficient and Appropriate.

The Commission has requested comment on whether one or two fixed, per minute charges should apply per tandem switched transport.[45] The Commission also requests parties that advocate applying the fixed charge only to the dedicated interoffice link of tandem switched transport to address whether different treatment is warranted when the SWC is collocated with the tandem, so that there is no dedicated interoffice link for which a fixed charge would ordinarily be accessed. The Commission further requests parties to identify what costs would be recovered by a fixed charge in this situation.[46]

SWBT continues to believe that the tandem-switched rate structure it originally proposed in this docket is the most economically efficient and appropriate. This structure is comprised of the following rate elements:

- Serving Wire Center to Tandem Switch--Dedicated transport charges, i.e., special access rates comprised of two components; a fixed component charge to recover the termination equipment at the SWC and at the tandem; and a per mile interoffice facility component charge;
- Multiplexing at the SWC to MUX DS3 entrance facilities to DS1/DS0 interoffice or DS1 entrance facilities to DS0 interoffice facilities as applicable;
- At the Tandem Switch--Dedicated Tandem Interface charge; a charge to recover the circuit and switch matrix interface charge (dedicated to switched interface); and,

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[45] FNPRM, at para. 126.

[46] FNPRM, at para. 126.

- Tandem Switch to End-office--Distance sensitive Minute-of-Use (MOU) charge to recover the shared common transport facilities.

There is no problem (with a dedicated/common structured tandem-switched) when the tandem switch and the SWC are located in the same building (collocated) or if its the same switch (matrix). In this situation only the fixed transport component element would apply. The entrance facility, MUX (if applicable), tandem interface, and common transport charge elements would apply.

F. Tandem Switching Cost Recovery

Tandem-switching costs utilized by tandem-switched transport users should be recovered from those users. Because tandems serve a significant number of low volume transport market areas (See Attachment 7), efficient pricing as presented in Option 1 of Section V of these comments may be applicable to their recovery. These costs should be recovered as a switching element, not as a transport element. Other non-transport related costs, which benefit both tandem-switched and direct trunked transport users, that are currently being assigned to tandem-switching should be recovered in appropriate switching rate elements from all users of these functionalities.

SWBT proposes the following for moving the recovery of tandem switching costs from transport to switching. Price cap exchange carriers would reduce the interconnection charge through a shift of the recovery of all non-transport related costs currently assigned to tandem-switching to a new switching basket. LECs would be permitted to recover through a switching element the tandem switching costs associated with providing tandem-switched

transport. Other non-codified switching rate elements may be established to recover the other non-transport related costs assigned to tandem-switching.

IV. ANALYSIS AND QUANTIFICATION OF THE INTERCONNECTION CHARGE

A. The IC is an Integral Part of the Interim Rate Structure and Should be Maintained Until Appropriate Solutions Are Implemented.

The Commission adopted the IC as a transitional measure to avoid revenue and cost recovery dislocations due to its replacement of the current average equal charge rates with substantially lower interim transport access rates.[47] The Commission tentatively concluded that they should require a phased removal from the IC of all costs except those relating to clearly identified public policy goals.[48] The Commission proposed that to the extent the IC represents costs more appropriately recovered through access elements other than transport, these costs should be shifted gradually in conjunction with other access charge reforms.[49]

SWBT supports the use of the IC as an interim measure to maintain revenues which recover appropriate and legitimate transport costs. The analysis of IC revenues and what they represent is a complex process and solutions will take time for the industry to resolve. SWBT, in response to the Commission's FNPRM has performed extensive analyses of its interstate transport costs

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[47] FNPRM, at para. 133.

[48] Interim Transport Order, at para. 58.

[49] FNPRM, at para. 133.

and revenues to determine how they contribute to the size of the IC. SWBT recommends that the Commission not immediately remove or phase out the IC, with the exception of the portion associated with the overallocation of General Support Facility (GSF) costs,[50] and the moving of tandem switching cost recovery from transport to a new switching basket, without addressing alternatives for the recovery of these revenues/costs. As SWBT will show in its analysis, the costs recovered through the IC are legitimate costs of providing transport service. There are a broad range of alternatives for recovery of IC costs that must be addressed by the Commission before any final action can be taken with regard to the disposition of the IC. These include: allowing LECs increased pricing flexibility to more efficiently price transport service outside of heavily competitive areas, accelerated capital recovery programs, alternatives for fixed/indirect cost recovery, and the potential use of support mechanisms to minimize price increases in high cost areas.

In these comments SWBT presents its explanation and quantification of the items which contribute to the size of the IC. SWBT also proposes various alternatives for the future disposition of the IC. Finally, SWBT addresses specific issues surrounding the IC in the FNPRM for which the Commission sought comment.

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[50] See Section IV, C, 4a., infra.